

# Final Budget Executive Summary

## Debt Management

### Introduction

Debt Management is an important component of a large city's financial management practices. Cities use the option of debt financing to pay for large projects, such as police stations and major stadium improvements, when paying for these projects out of current revenues would be impractical. For a large debt issuer, like the City of San Diego, good debt management is important to insure that: 1) the amount of debt issued by the City is affordable given the City's anticipated revenue levels and operating needs; 2) the City issues the kinds of debt appropriate to given projects at the lowest possible interest cost; and 3) the City issues debt in compliance with all relevant laws and regulations.

### Legal Debt Limits

The City of San Diego's legal debt limit currently totals \$4.1 billion. The following table outlines the City's legal debt margin as of June 30, 1998.

#### STATEMENT OF LEGAL DEBT MARGIN - JUNE 30, 1998 (IN THOUSANDS OF DOLLARS)

	GENERAL OBLIGATION BONDS*		
	FOR WATER PURPOSES	FOR OTHER PURPOSES	TOTAL
Assessed Valuation: July 1, 1997 - \$16,410,196***			
Debt Limits**	<u>\$2,461,529</u>	<u>\$1,641,020</u>	<u>\$4,102,549</u>
Outstanding General Obligation Bonds	0	21,178	21,178
Less: Cash Reserve for Matured and Unpaid Bonds	<u>0</u>	<u>3</u>	<u>3</u>
Outstanding General Obligation Bonds Applicable to Debt Limit	<u>0</u>	<u>21,175</u>	<u>21,175</u>
<b>LEGAL DEBT MARGIN</b>	<b><u>\$2,461,529</u></b>	<b><u>\$1,619,845</u></b>	<b><u>\$4,081,374</u></b>
Percentage of Outstanding Debt to Assessed Valuation	0.00%	1.38%	1.38%

\* All City of San Diego General Obligation Bonds are serially numbered and redeemable from special tax levy.

\*\* Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

\*\*\* Beginning January 1, 1981, a change in State law required the County Assessor to assess all taxable property at 100% of full value as opposed to the prior practice of assessing property at 25% of full value. To be in compliance with the City Charter, the assessed valuation used for this Statement is at 25% of full value.

Source: City of San Diego Comprehensive Annual Financial Report for year ending June 30, 1998, page 142.

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### ***Long-Term Obligations***

As of June 30, 1998, the City had \$21,175,000 aggregate principal amount of long-term general obligation bonds outstanding. The City has never failed to pay principal and interest on any debt or lease obligation when due. The City has issued Special Assessment Bonds on behalf of developers. These bonds are secured by property owner assessments. Although the City is not obligated to make debt service payments on Special Assessment Bonds, the City has, when necessary, taken proactive measures to help protect the interests of Assessment District bondholders. As of September 2, 1999, all Assessment District bondholders have received the principal and interest due on their bonds.

The following table is a schedule, by years, of payments required by the City and its oversight entities with respect to future obligations, as of June 30, 1998.

#### **CITY OF SAN DIEGO – FUTURE OBLIGATIONS (IN THOUSANDS)**

<b>FISCAL YEAR ENDING JUNE 30</b>	<b>GENERAL OBLIGATION BONDS</b>	<b>SPECIAL ASSESSMENT/ MELLO-ROOS BONDS</b>	<b>TAX ALLOCATION BONDS</b>	<b>CONTRACTS PAYABLE</b>	<b>NOTES PAYABLE</b>
1999	\$8,910	\$11,709	\$10,465	\$401	\$6,766
2000	9,894	11,727	10,452	252	3,269
2001	9,149	11,611	10,446	252	3,275
2002	9,268	11,646	10,422	252	3,281
2003	9,395	11,694	10,417	139	3,287
Thereafter	74,603	160,132	127,381	139	96,580
Sub-Total	\$111,821	\$218,519	\$179,583	\$1,309	\$116,458
Less amounts representing interest	(33,221)	(105,414)	(70,138)	(296)	(9,107)
TOTAL	\$78,600	\$113,105	\$109,445	\$1,013	\$107,351

Source: City of San Diego Comprehensive Annual Financial Report for year ending June 30, 1998, pages 18-25

### ***Short-Term Borrowings***

The City has issued tax anticipation notes since Fiscal Year 1968 (except for Fiscal Year 1979) to cure periodic General Fund cash flow deficits. In Fiscal Year 2000, short-term borrowings totaled \$99,500,000. The City has never defaulted on any short-term bonded indebtedness issued.

### ***Overlapping Debt and Debt Ratios***

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. A statement of overlapping debt is presented on the next page. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation. Revenue bonds, tax allocation bonds, and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City General Fund or equivalent sources are included.

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### **SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT – JUNE 30,1998 (IN THOUSANDS)**

	DEBT OUTSTANDING JUNE 30, 1998	PERCENTAGE APPLICABLE TO CITY OF SAN DIEGO	AMOUNT APPLICABLE TO CITY OF SAN DIEGO
<b>JURISDICTION</b>			
City of San Diego	\$21,175	100.000%	\$21,175
City of San Diego Certificates of Participation	72,435	100.000	72,435
City of San Diego 1915 Act Bonds	60,150	100.000	60,150
City of San Diego Mello-Roos Bonds	52,955	100.000	52,955
City of San Diego Redevelopment Agency	115,454	100.000	115,454
City of San Diego Metropolitan Transit Development Board (MTDB)	72,940	100.000	72,940
Metropolitan Water District	90,338	16.132	14,573
North City West School Community Facilities District	77,160	100.000	77,160
Poway Unified School Community Facilities District #1	87,090	100.000	87,090
Poway Unified School District	5,928	100.000	5,928
Public Facilities Financing Authority	68,425	100.000	68,425
South Bay Union School District	8,497	61.632	5,237
San Diego Community College District	24,290	99.890	24,263
San Diego County General Fund Obligations	538,088	47.296	254,494
San Diego County Water Authority	8,865	100.000	8,865
San Diego Open Space Park Facilities District #1	57,425	100.000	57,425
San Diego Unified School District	378,430	100.000	378,430
Other School and Community College Districts	91,149	various	24
Other Special Districts	7,148	various	1,923
<b>TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT</b>			<b>\$1,378,946<sup>1</sup></b>
<b>LESS:</b>			
Bonds Paid by Water Revenue:			
Helix, Otay Mesa and Pomerado Water Districts			1,923
Metropolitan Water District			14,573
San Diego County Water Authority			8,865
San Diego Open Space Park Facilities District #1			57,425
<b>TOTAL BONDED DEBT SUPPORTED BY OTHER THAN PROPERTY TAX</b>			<b>82,786</b>
<b>NET DIRECT AND OVERLAPPING BONDED DEBT</b>			<b>\$1,296,160</b>

#### **1997-98 ASSESSED VALUATION (100% OF FULL VALUE):**

\$69,779,416 (including the redevelopment tax allocation increment of \$4,138,631)

#### **RATIOS TO ASSESSED VALUATION**

City of San Diego Gross Direct Debt (\$350,449)	0.50%
City of San Diego Net Direct Debt (\$234,995)	0.34%
City of San Diego and Open Space District Gross Direct Debt (\$266,489)	0.38%
City of San Diego and Open Space District Net Direct Debt (\$234,995)	0.34%
<b>TOTAL GROSS DEBT</b>	<b>1.98%</b>
<b>TOTAL NET DEBT</b>	<b>1.86%</b>

<sup>1</sup> Excludes revenue and tax anticipation notes.

Source: Responsible Agencies, California Municipal Statistics, Inc.

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### ***Credit Rating***

The City of San Diego's General Obligation Bond rating, AA+/Aa1/AA, reflects the City's strong credit rating. These ratings were awarded to the City by Fitch IBCA, Moody's Investment Service, and Standard & Poors Corporation, respectively. Credit ratings are designations by investor's services to give a relative indication of credit quality, with Aaa/AAA being the highest achievable rating.

Prior to the passage of Proposition 218 in November 1996, the City's General Obligation Bond credit ratings were Aaa (Moody's) and AA+ (Standard & Poors), the highest of any large city in California. In the aftermath of Proposition 218, the Moody's rating was lowered to Aa1 and the Standard & Poors rating was lowered to AA. The reductions were due to financial constraints imposed on all local governments in California as a result of Proposition 218. Notwithstanding the reductions, San Diego continues to have the highest ratings among large cities in California. Factors contributing to the City's relative high ratings include an increasing tax base, favorable debt ratios, and sound financial operations and reporting.

### ***Assessment District Financing Policy***

The City Council adopted a formal Special District Financing policy which governs the financing of public infrastructure through the use of Special Assessment and Mello Roos Community Facility districts. The policy consists of guidelines/requirements for:

- Determining which public facilities qualify for financing,
- Initiating district formation proceedings,
- Providing impacted property owners with sufficient and appropriate disclosure relating to proposed special districts,
- Evaluating the financial feasibility of a proposed special district financing,
- Determining and apportioning assessments or special taxes, and
- Reimbursing the City for all necessary costs associated with the evaluation, establishment, and administration of special districts.